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ABSTRACT

Designed to assist prospective buyers in making such important decisions as whether to buy a new or older home and within what price range, the guide provides information on the purchase process. Discussion of the purchase process covers the life-cycle costs (recurring homeownership costs that must be met every month); selection of a home; evaluation of prices; things to consider when buying; earnest money contract; borrowing money; types of loans (conventional, Veterans Administration-guaranteed, and Federal Housing Administration-guaranteed); closing the transaction; and the warranty deed. The more common closing cost items are briefly discussed: prorations of property taxes and insurance; fees for real estate broker, loan origination, appraisal, assumption of existing loan, recording and transfer, and survey; discount points; credit report; prepaid interest; private mortgage and hazard insurances; reserves deposited with lender; title insurance premiums; and termite inspection. Appended are a summary of items covered on the disclosure form, a list of items to consider when examining a pre-owned and a new house, a checklist for custom building, and a glossary of 91 terms which may be of interest to the novice homebuyer. (NQA)

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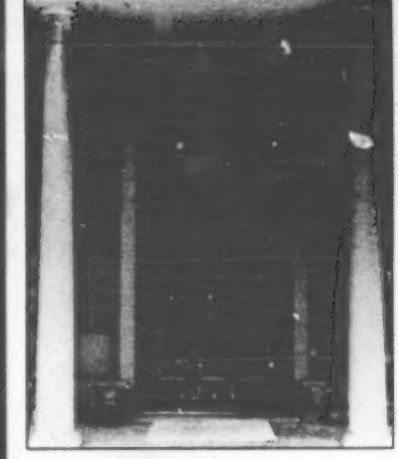

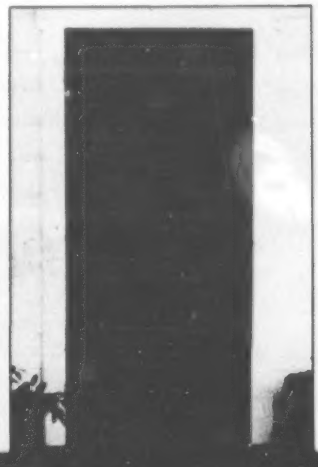

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Homebuyer's Guide

By Roger P. Sindt and Jack Harris

Texas Real Estate Research Center
Texas A&M University

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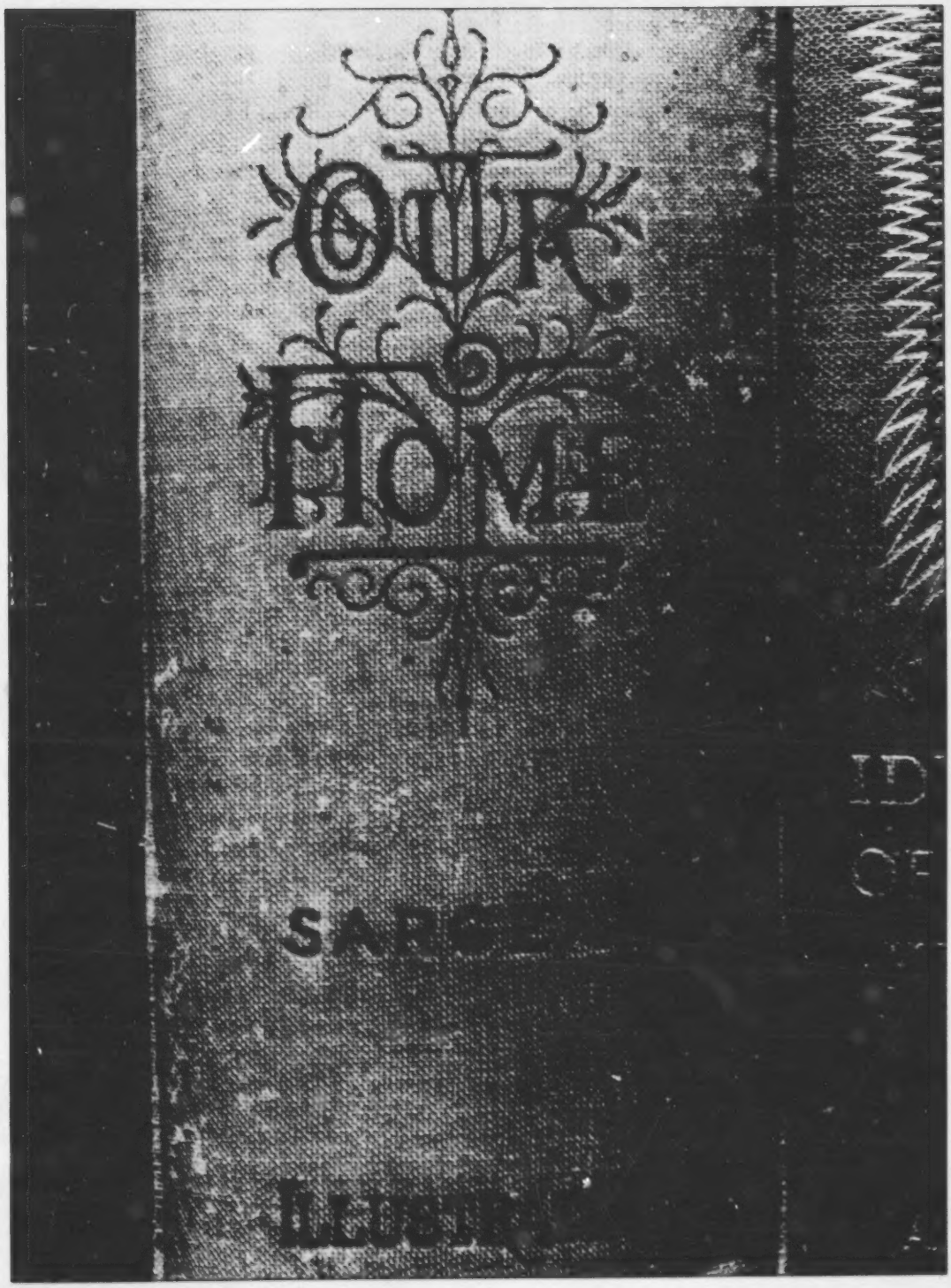
Each year nearly one-fifth of all Texans move, and many of them buy a home for the first time. Since selecting and buying a home is a major decision, the careful buyer should be informed about the entire process, from choosing a house to closing the transaction.

This guide was prepared to assist the prospective buyer in making such important decisions as whether to buy a new or older home and what price range will be affordable. Also included is information on mortgages, completing the purchase and an extensive glossary useful to the novice homebuyer.



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There are many reasons to buy a house. Some buy primarily for investment, others for basic shelter and still others aspire to a lifestyle which only a certain type of house in a specific location can provide. In most cases, a part of each of these reasons is present.

Therefore it is important to consider the many aspects of homeownership: affordability, financing, location, style, price, quality and the mechanics of negotiating a purchase and obtaining a loan.

Life-Cycle Costs

The first step in the purchase process is determining the price one can afford. The purchase price is only part of the life-cycle costs of ownership. Life-cycle costs are those recurring expenses that must be met every month, such as principal and interest payments (debt service), taxes, insurance, maintenance and utility bills. The typical mortgage in Texas today calls for repayment of principal and interest on the loan at a specified interest rate for the life of the loan. The debt-service payment generally is constant over the life of the loan. (An exception is the variable-rate loan. See the section on types of loans.) Taxes, insurance, upkeep and utility bills, however, probably will increase each year. Therefore it is important to consider whether income will keep pace with expected costs.

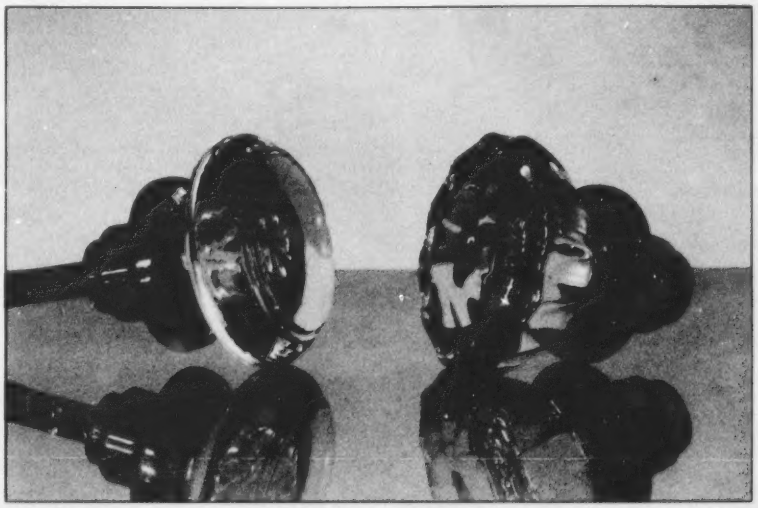
One's ability to purchase housing also depends on other spending. Some people are willing to scrimp in order to concentrate their funds on housing. The debt service and tax portions of lifecycle costs are long-term obligations that cannot be deferred. Failure to meet these expenses may result in the loss of one's housing investment.

The lending industry has some general guidelines helpful in planning. The purchase price of the home should range from 1.5 to 2 times the combined yearly household income. That is, an income of $24,000 per year would place the limit of purchase in the $36,000 to $48,000 range.

Another guideline is that principal, interest, taxes and insurance (PITI) payments should not exceed 28 percent of the monthly household income. That is, an income of $2,000 per month ($24,000 per year) would accommodate PITI expenditures of $560 per month. Again, with a typical (20 percent) down payment, this would allow purchase of a home in the $36,000 to $48,000 range, depending on interest rates. (On government-backed mortgages — FHA or VA — a different set of guidelines is used. Total housing payments, including PITI, utilities and maintenance, should not exceed 35 percent of household income after taxes; or housing payments plus all other long-term obligations should not exceed 50 percent of after-tax income.)

In order to arrive at a realistic monthly life-cycle homeownership cost, utility charges also must be included. Utility costs generally will be higher for a house than an apartment due to its larger size. Utility costs should be expected to increase over time.

Part of the monthly payment reduces the mortgage principal. In the example shown in the table, $6.56 of the total PITI payment of $502 should be deducted from the actual costs of homeownership. Also, interest and property taxes are deductible on federal income tax returns as itemized deductions. This means $420 in interest plus $56.25 in property taxes in the example could reduce the cost of homeownership by $152.40 per month because of the income tax savings, assuming the purchaser is in a 32 percent tax bracket. The monthly cash outlay (excluding utility



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costs) would be reduced to $386.66 with this tax savings. Remember, the tax savings will not be realized until the following year. Likewise, any equity build-up will not be realized until the house is sold.

Selection Process

Typical monthly costs of homeownership, excluding utilities*

1. Interest at 14% on $36,000 for first month	$420.00
2. Payment for principal on mortgage for first month	6.56
3. Maintenance and repairs (1% per year)	37.50
4. Property taxes (assume 1-1/2% per year of market value)	56.25
5. Hazard insurance (assume 1/2% per year of market value)	18.75
Total monthly cash outlay	$539.06

*Source: Texas Real Estate Research Center, assuming a $45,000 value house, 30-year term, 80 percent ($36,000) mortgage

Selecting a home can be time consuming and tedious. A prospective buyer should become familiar with the real estate market in the area where she or he would like to live. This includes reading the classified ads, attending open houses and driving through neighborhoods to get a feel for the area. One of the easiest and quickest ways to amass the information needed for an intelligent decision is to contact a licensed real estate brokerage firm. These professionals market real estate every day and must keep abreast of the market, trends, pricing information, stability of neighborhoods, sources of available financing and much important information.

Once the decision to buy has been made and price range established, the selection process can begin. There are options: a preowned house, a new home or a custom-built home. Each has advantages and drawbacks.

Compared to a new home of the same size with equivalent amenities, a preowned home generally will cost less. Older homes will have established yards with more mature trees and shrubs. They will be located in established neighborhoods where the character of the area is apparent. A preowned home likely will have most minor problems solved that often accompany a new home purchase. It may be lacking in certain critical amenities, however, and it requires more maintenance. For example, adequate insulation is not found in many homes more than 10 years old. Some do not have adequate electrical wiring, while others

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lack efficient heating and cooling systems. Also, a home in an older area may not appreciate as rapidly as one in a newly developed area. Exhibit 3 in the appendix provides a checklist of major considerations for the buyer of a preowned home.

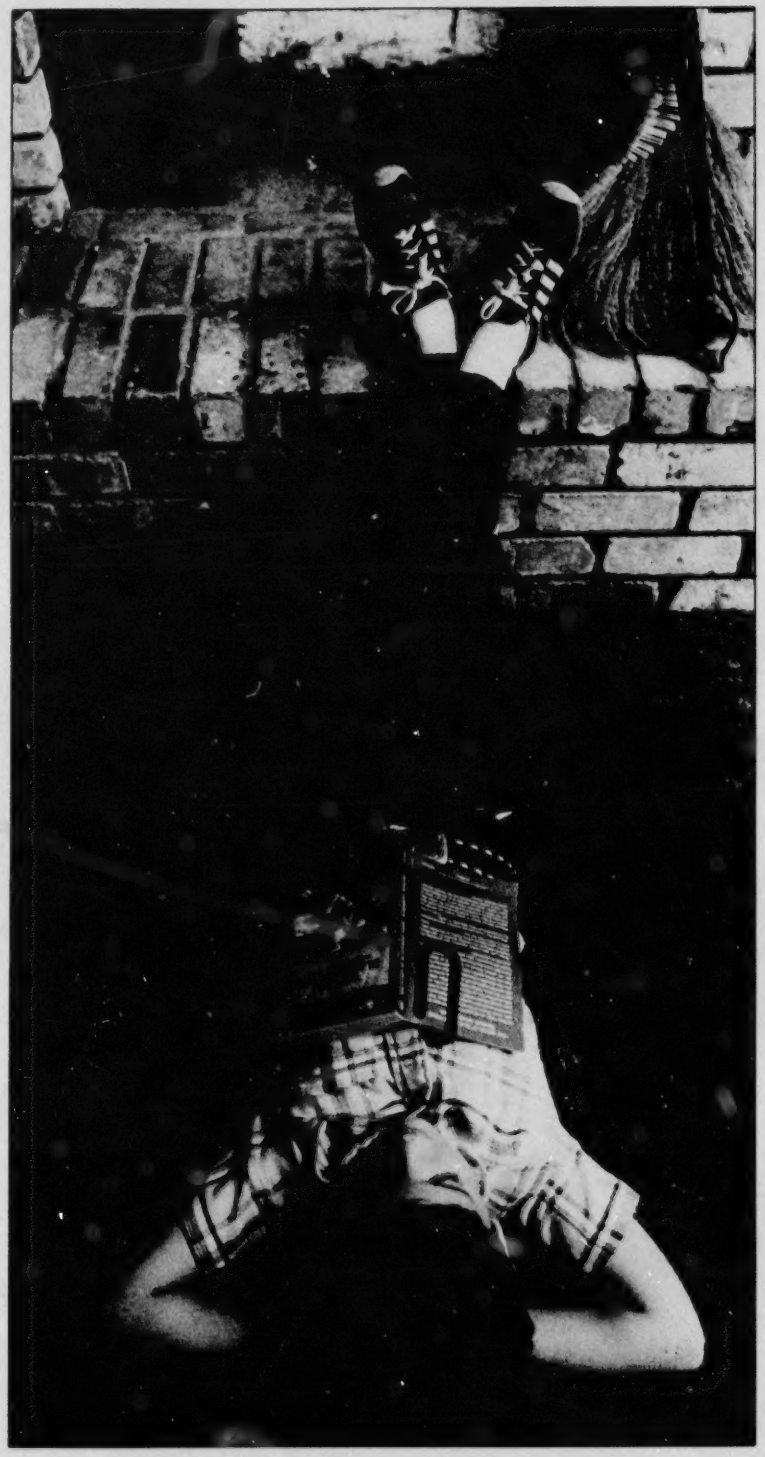
A new home requires minimal maintenance and almost no repair for the first few years of ownership. A new, speculative (not custom built) home will offer most of the features a typical purchaser wants.

Essential features for contemporary living should include adequate insulation and electrical capacity. The new home should have a year's warranty against defects in materials and quality of work. If uncertain about the builder's reputation, other purchasers of the builder's homes should be consulted. They may be able to provide insight into commonly occurring problems and ways such problems may be avoided in working with the builder. Exhibit 4 provides a checklist of major considerations for the new home buyer.

Building a custom home also can be considered, although much more is involved than in buying an existing home. Building will mean an unknown waiting period until completion and will require patience, attention to detail and the realization that costs may exceed original estimates. The quality of the construction, however, can be controlled, and individual tastes can be accommodated. The prospective contractor's reputation should be examined. Exhibit 5 provides a residential construction checklist with many of the more common elements involved in a typical construction project.

Most Texas buyers will purchase a single-family house. Other options include mobile homes (about 5 percent of the current housing supply), condominiums, townhouses, duplexes, triplexes and fourplexes. Interest in condominiums and townhouses is increasing due to their unique characteristics. These forms of homeownership minimize the amount of time and responsibility necessary for repairs, maintenance and yard upkeep since most of this is accomplished by a mandatory membership in a homeowner's association. They offer strong appeal to the young, single and retired. Like detached homes, they provide capital appreciation potential and tax advantages.

Duplexes, triplexes and fourplexes also are purchased by owners who seek to maximize



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their investment opportunities while simultaneously minimizing their own shelter costs by renting or leasing part of the unit to offset much of the ownership expense and, at the same time, provide potential for capital appreciation.

Evaluating Price

When evaluating prices, compare the asking price to similar houses in the area. Significant differences should be reconciled. The most knowledgeable individuals with this information are real estate professionals and those involved in financing real estate. They also will know the property value trends of the area.

Realty professionals know the lenders, appraisers, surveyors and other professionals who will be called upon in the homebuying process. Many firms are members of multiple listing services (MLS), and therefore can show homes listed by all other member firms.

The professional realty firm can assist in all aspects of the real estate transaction and is experienced with handling problems that may arise. Because they are licensed by the state, licensees must subscribe to a set of professional ethics and conduct and must treat all parties fairly.

Considerations When Buying

In addition to the home itself, there are other considerations to make before deciding to buy.

Location should be considered carefully. Under which property taxing jurisdictions does the house fall? Considerable variations in property tax rates or assessed valuations may occur.

School districts and the quality of schools may be extremely important. Distance to shopping and other services is a factor. Increasingly important is distance to one's job. Living close to work or having access to mass transit can reduce living costs.

Potential changes in property use in the area around the prospective house are important. For example, is there a growing commercial district (shopping center, offices, etc.) in the area? Sometimes changes in land use can be identified by talking to people who live in the area.

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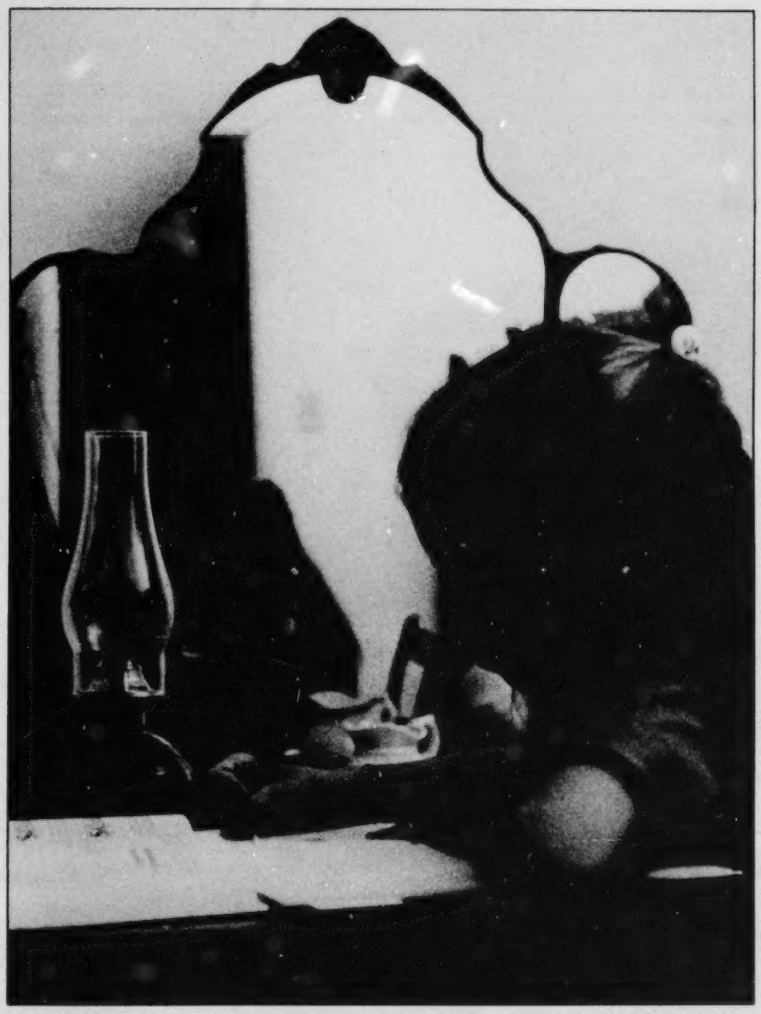
Hazards or nuisances may exist in the neighborhood or on the site. Noise from a nearby airport or highway may not be apparent on the day the house is inspected. A nearby stream may indicate flooding hazards. Check with the city planning department before buying. Financial institutions generally will not loan money on improvements in areas that are prone to flooding, unless the buyer obtains flood insurance.

If one is planning to buy a lot on which to build a custom home in a subdivision which contains 50 or more tracts, and the lot is less than five acres in size, the development may fall under the provisions of the Interstate Land Sales Full Disclosure Act. Briefly stated, developments falling under the act must have a printed property report which describes the land together with (1) the developer's past record of performance, (2) roads and other improvements as planned, (3) identification or special risks of purchase, (4) the developer's financial condition and (5) any other aspect of the lot of which the potential buyer should be aware when making a purchase decision. The law requires the seller to provide the report to a prospective purchaser prior to sale.

Earnest Money Contract

Once a particular home is selected, the next step is to make an offer on the property with an earnest money contract. This document sets forth specific terms and conditions for the offer to purchase. These may include, but are not limited to, the following:

- Identification of parties to the agreement
- Legal description of the property
- Contract sales price, including terms
- Financing conditions the buyer must receive from a lender
- Earnest money deposit (applies toward down payment)
- How title (type of deed) will be furnished
- Existing condition of property
- Statement of fees to be paid
- Date of closing
- Date of possession
- Any special provisions, such as personal property that will be transferred with the real property
- The division of sales expenses at closing
- How prorations of insurance, taxes, interest, etc. will be handled at closing
- Provision for the buyer to approve the title or for the seller to provide a commitment for owner's title insurance (or mortgagee's title policy, if financing is involved)
- Agreement as to who is responsible for casualty loss of the property before closing
- Agreement as to what happens when either party to the contract defaults
- Agreement as to how escrowed money will be handled
- An agreement that the title will be free and clear of all encumbrances (unless the buyer is assuming an existing lien on the property)
- Signatures of all parties to the agreement.



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Special conditions may be included in the contract, such as a requirement to have the property inspected for termite damage. A buyer also may want to have an inspection by a professional to determine the soundness of the structure or to have any equipment and systems analyzed. These added safeguards may be particularly valuable for the first-time homebuyer who would like professional advice and recommendations on which to base a decision.

The Texas Real Estate Commission and the State Bar of Texas jointly formed a special committee that prepared standardized contracts for real estate transactions in Texas. Licensed real estate brokers in Texas are required to use these forms if an attorney does not prepare the earnest money contract.

The earnest money contract is extremely important. Study it carefully, and understand it fully. When signed by all parties to the contract, it forms a legally binding agreement, and the sale will be guided through to closing by its provisions.

Borrowing Money

Most homes in Texas are purchased with borrowed funds obtained from savings and loan associations or mortgage bankers, and, to a lesser extent, from commercial banks, life insurance companies and other private sources. Funds from lenders usually are secured by a mortgage which pledges the real estate as the security for the obligation created in a promissory note. In Texas the mortgage usually is found in a legal instrument called a deed of trust.

Under this arrangement the buyer obtains ownership of the property, but a third party, known as a trustee, actually holds the deed in trust until the promissory note is paid in full. The trustee is appointed by the lender and may be changed from time to time. Basically, the trustee's only duty is to sell the property in case of default. This permits the mortgage to be foreclosed quickly without court action.

Types of Loans

There are several types of loans, the conventional being the most common. There also are VA-guaranteed and FHA-insured loans. Conventional loans are made on the borrower's financial strength and ability to repay the loan from current income sources. This loan is made between the lender (mortgagee) and the borrower (mortgagor). The VA mortgage can be made only to qualified veterans. The loan is guaranteed up to a certain dollar amount by the Veterans Administration. Similarly, the Federal Housing Administration (FHA) insures loans to qualified individuals. They generally do not lend funds directly; funds must be obtained through an approved lending source. The FHA insurance is paid with annual premiums amounting to one-half percent of the outstanding loan balance. The interest rates for VA and FHA loans will be less than conventional loan interest rates. Typically with VA and FHA loans there will be additional cost to the seller in the form of dis-

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count points. VA loans are attractive to veterans since no insurance premium or down payment usually is required.

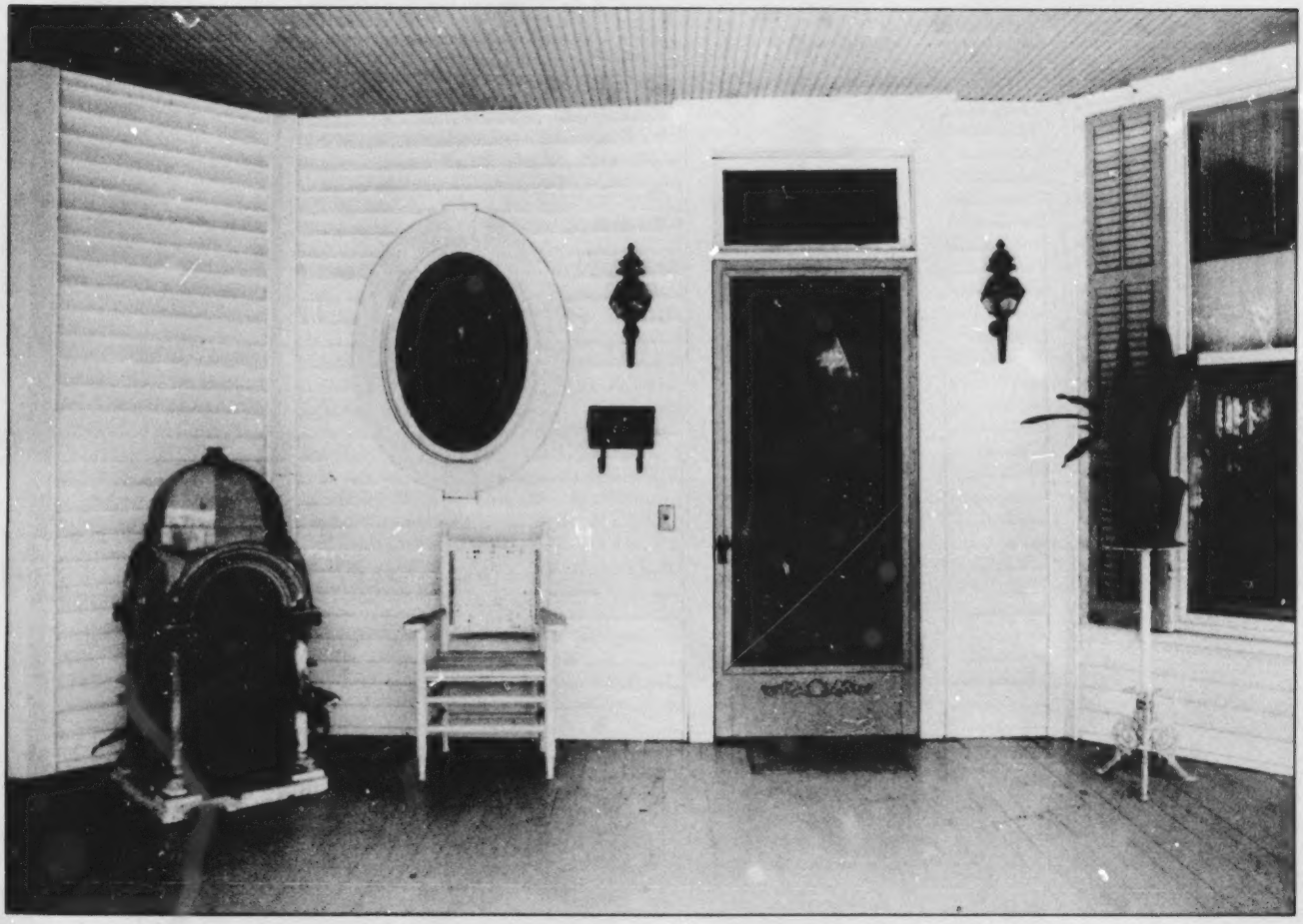
The Federal Home Loan Bank Board now allows lenders to offer adjustable-rate loans. The interest rate charged on these loans may be adjusted periodically, thereby changing the required monthly payments. Such adjustments, however, are limited to one-half percentage point per year and may not exceed a set range over the loan term.

Borrowing from any financial institution can be a lengthy process. Savings and loan institutions require the buyer to complete a loan application form. The purchaser may speed the application process by preparing a financial statement in advance. The lender also may charge for an appraisal and credit check. Lenders usually can process a loan application for conventional and VA financing within two to four weeks, depending on the credit check and appraisal. FHA loan applications may take longer. Once the loan is approved, a firm loan commitment is mailed to the applicant. The loan applicant signs and returns the commitment together with any required fees.

Discount Points

Some lenders require loan fees often called points. These points are based on the loan amount and may be charged to both buyer and seller. One point is equal to 1 percent of the loan. With a $32,000 loan, one point would equal $320. This money is due at closing rather than on a monthly basis. Many lenders require points as a condition for making conventional loans.

For FHA and VA loans, the law requires that no more than one point can be paid by the buyer. This is called a loan origination fee.



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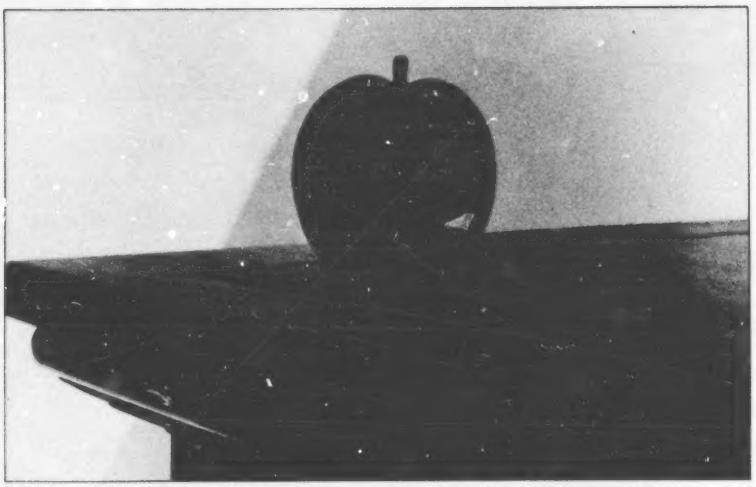

A seller can, and usually is, required to pay additional points, since the interest rate on an FHA or VA loan characteristically is below market rates. Usually one point is charged for each one-eighth of 1 percent that the FHA or VA loan rate varies below the conventional loan interest rate. A VA loan with an interest rate of one-half percent below the conventional interest rate would require payment of four points to bring the yield of the VA loan up to the yield on a conventional loan.

An existing, long-term, low-interest mortgage may be desirable to assume if the required down payment is not too high. In fact, the existence of such assumable loans is a major selling point for many properties.

When evaluating an assumption of an existing mortgage versus refinancing, the purchaser should consider the following:

- Does the mortgage contract allow assumption of the old mortgage by the purchaser? If so, does the lender have the right to change the terms of the loan or apply significant assumption fees?
- Must the purchaser "assume" the mortgage or can he or she take the property "subject to" the mortgage? In the latter instance, the purchaser has no liability for the mortgage note in case of default by the purchaser.
- How much equity has the seller built up in the property? The equity is the difference between the purchase price and the unpaid balance of the loan. If the mortgage is assumed or if the property is taken subject to the mortgage, this equity must be paid either in cash or by a second mortgage or other financing.

Closing the Deal

Upon accepting the terms of the loan commitment or assumption, the next step is to close the transaction.

Due to the complexities of a real estate transaction, an attorney will be required by the lender to handle the closing. The buyer may want to employ an attorney to make sure her or his rights are protected. In most cases, however, the buyer would pay for the services of both attorneys.

The lender is required by law under the Real Estate Settlement Procedures Act (RESPA) to make an estimate of closing costs available one day prior to closing. Depending on the number of points to be paid and other items, a buyer may pay as much as 3 to 4 percent of the loan in closing costs. Local practices and tradition will dictate whether buyer or seller pays certain closing cost items. A buyer may negotiate these items with the seller at the time the earnest money contract is signed. A list of the more common closing cost items are:

- **Prorations of property taxes and insurance —** such adjustments often are made in order to divide these costs (or prepayments) so the seller is charged (or credited) for the period he or she owned the property, and the buyer is charged (or credited) for the period after closing.
- **Real estate broker's fee —** this fee is for services involved in listing and selling the property and usually is paid by the seller.
- **Loan origination fee —** always applies to VA and FHA loans and usually to conventional loans.
- **Discount points —** discussed previously, and may be paid by either party, although only the seller may pay on VA or FHA loans.
- **Appraisal fee —** required by the lender to estimate the value of the property on which to base the loan amount. This fee is usually paid by the buyer and may be payable in advance of closing.
- **Credit report —** required by the lender to establish the buyer's credit worthiness. This

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fee usually is paid by the buyer.

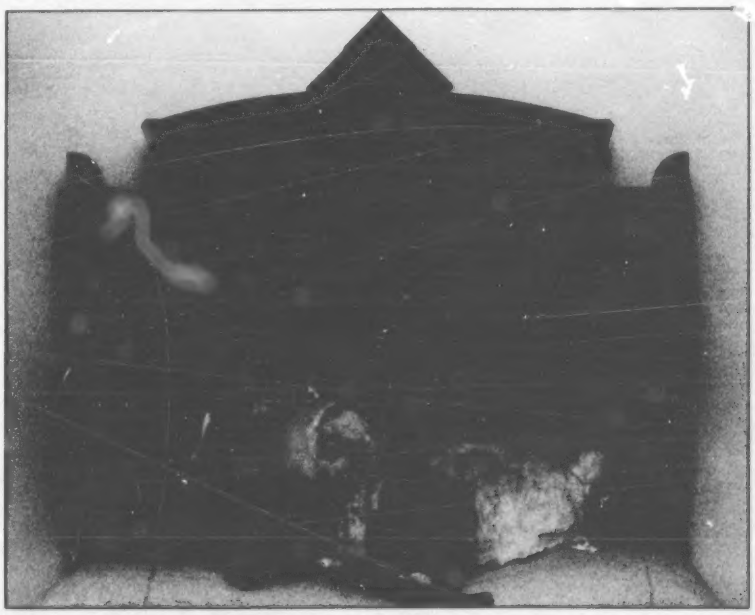
- **Assumption of existing loan fee —** when a buyer assumes the seller's existing loan on the property, the lender makes a charge for processing the change. This fee generally replaces the loan origination fee.
- **Prepaid interest - -** this charge covers interest which accrues from the date of closing until the period covered by the borrower's first monthly payment. Most interest on mortgage loans is paid in arrears (after the interest is earned by the lender).
- **Private mortgage insurance —** this type of insurance is required when FHA or a private mortgage insurance (PMI) company covers the lender against loss if the buyer fails to meet the monthly mortgage payments. PMI usually is required on conventional loans above an 80 percent loan-to-value ratio.
- **Hazard insurance —** the lender will require a policy protecting the home against hazards such as fire, storm and other natural hazards. This coverage may be included in a homeowner's policy which insures against possible additional risks like personal liability and theft. These policies do not protect against loss caused by rising flood waters.
- **Reserves deposited with lender —** the lender may require the borrower to place funds in an escrow account sufficient to defray taxes and insurance on the property when they come due.
- **Title insurance premiums —** to protect the lender's interest, a mortgagee's title insurance policy usually will be required. These rates are regulated by the Texas State Board of Insurance. The borrower may want to pay for a mortgagor's policy or title insurance which provides coverage for equity interest in the property.
- **Recording and transfer charges —** these charges cover costs of recording documents with the appropriate public office which provides notice to the public of a change in ownership of real property.
- **Survey fees —** the lender may require a physical survey to show the exact location of the improvements on the lot and to discover any encroachments either on the subject property or on another's property.
- **Termite inspection —** this is required by VA and FHA loans.

At the closing several important legal documents will be signed. The promissory note indicates the amount actually borrowed and terms of the loan. The mortgage, contained in the deed of trust, must be signed. The covenants of the deed of trust are many, long and comprehensive. In general they outline the duties and obligations of the borrower. The deed of trust must be signed by the borrower and acknowledged by a notary public. If the property is community, both spouses usually have to sign the document.

Warranty Deed

The purchaser should receive a general warranty deed to the real estate from the seller. The deed is the actual title to the real property purchased. The general warranty deed conveys the fullest ownership rights one can acquire in real property.

When all the paperwork is finished and all funds disbursed to the appropriate parties, the transaction is complete. With attention to maintenance and a little care, a newly purchased home can be a source of great pride and one the most important investments of a lifetime.



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Appendix

Exhibit 1
Additional Information

The Texas Real Estate Research Center offers several free publications which may be of interest to the prospective homebuyer.

publication number	title and author
50	So You Want To Sell Your House (Young)
86	Mobile or Conventional Shelter — Which Is the Better Buy? (Moreau & Wright)
121	Squatter's Rights (Levi & McCracken)
134	Title Insurance: A Good Choice Indeed (Fambrough)
142	What Kinds of Insurance? (Wright)
144	The High Cost of Saving Energy (Patterson)
145	Native Plants for Native Places (Welch)
159	Cheap Tricks for Saving Energy (Patterson)
169	Energy Device Advice (Patterson)
219	The Investment Advantages of Homeownership (Stern)
221	Termites (Granovsky)
222	Home Under the Range (Sorensen & Sorensen)
236	Jeep or Gyp'em: Graduated-Payment Mortgages (Friedman)

Exhibit 2
Disclosure Settlement Statement

The disclosure settlement statement is furnished to the buyer and seller before closing to give information about closing costs. Some of the items may be estimated. Another form will be furnished upon closing to show actual costs paid by the buyer and seller. The following summarizes items covered on the disclosure form.

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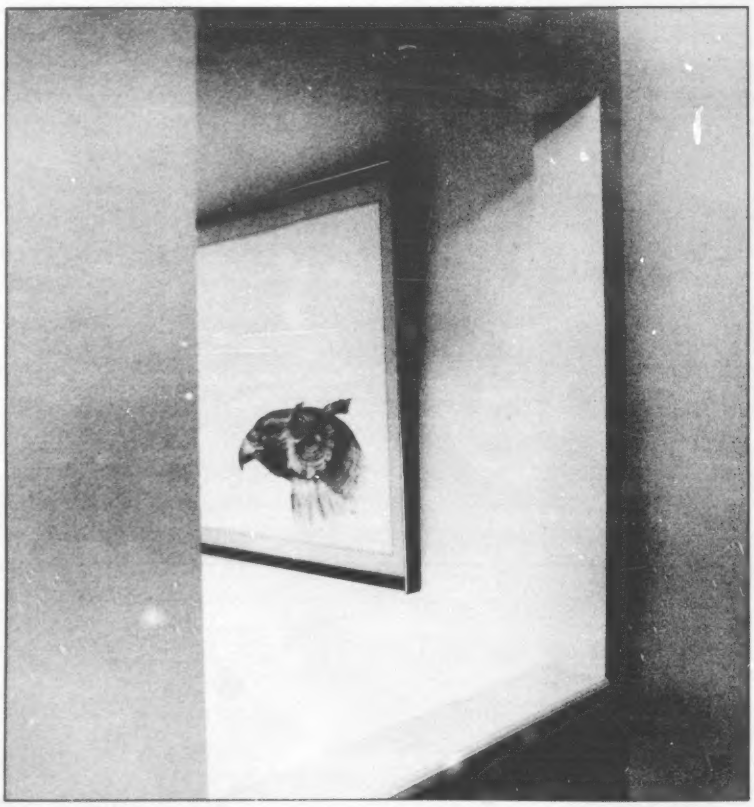
Borrower's transaction
- Gross amount due from borrower:
  - Contract sales price
  - Settlement charges to borrower
  - Adjustments paid by seller in advance:
    - City taxes
    - County taxes
    - Assessments
- Amounts paid by borrower:
  - Deposit or earnest money
  - Principal amount of loan
- Credits to borrower for items unpaid by seller:
  - City taxes
  - County taxes
  - Assessments
- Cash at settlement required from or payable to borrower

Seller's transaction
- Gross amount due to seller:
  - Contract sales price
  - Personal property
  - Adjustments for items paid by seller in advance:
    - City taxes
    - County taxes
    - Assessments

Closing charges
- Sales-brokerage commission:
  - Total commission paid by seller
  - Division of commission
- Items payable in connection with loan:
  - Loan origination fee
  - Loan discount
  - Appraisal fee
  - Credit report
  - Lender's inspection fee
  - Mortgage insurance application fee
- Items required by lender to be paid in advance:
  - Interest
  - Mortgage insurance premium
  - Hazard insurance premium
- Reserves deposited with lender for:
  - Hazard insurance
  - Mortgage insurance
  - City property taxes
  - County property taxes
  - Annual assessments
- Title charges:
  - Settlement or closing fee
  - Abstract or title search
  - Title examination
  - Document preparation



  - Notary fees
  - Attorney's fees
  - Title insurance
  - Lender's coverage
  - Owner's coverage
- Government recording and transfer charges:
  - Recording fees
  - City-county tax
  - State tax
- Additional settlement charges:
  - Survey
  - Pest inspection

Exhibit 3
Inspecting a Pre-Owned Home

Structural characteristics:
Noticeable cracks in slab or foundation

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Unusual settling of foundation, walkways, driveways
Brick cracked or pulled away
Brick chimney pulled away from house
Condition and age of roof
Significant cracks in wallboard or moisture spots
Condition of exterior and interior paint
Condition and adequacy of attic ventilation
Floor arrangement:
Good traffic patterns
Adequate storage in kitchen and bedrooms
Adequately-sized bedrooms
Conveniently located bathrooms
Insulation:
Amount, and if inadequate, costs of additional insulation
Double-pane windows (if not, can storm windows be adapted?)
Condition of caulking and weather stripping
Heating and cooling:
Check previous utility bills for cost
Age, capacity and condition of air conditioner and heating unit
Adequacy of air ducts
Electrical:
100-150 amp electrical service (higher if all electric)
220-volt outlet for dryer
Number of electrical circuits and placement of electrical outlets
Plumbing:
Bathroom fixtures working
Adequate septic system (if not on city sewer)
Condition of hot water heater (leaks and drainage)
Miscellaneous:
Evidence of termite damage
Condition of fencing
Condition of lawn sprinkler system
Condition of all mechanical components
Condition of gutters and downspouts
Age and condition of carpeting and flooring
Window screens
Evidence of moisture or flooding problems

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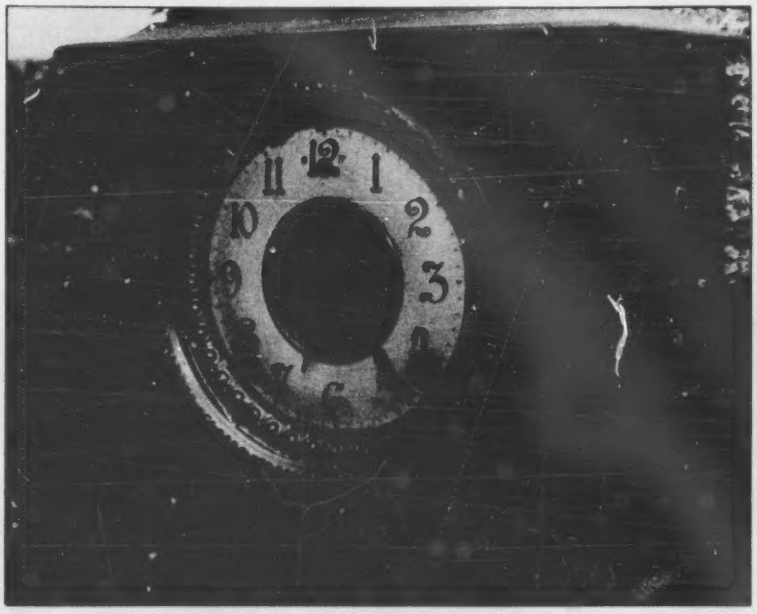
Exhibit 4
Examining a New House

Structural characteristics:
Adequate slab or foundation
Interior and exterior properly finished
Quality roofing material
Floor arrangement:
Good traffic patterns
Garage conveniently located
Minimum wasted space
Adequately sized bedrooms
Bathrooms conveniently located
Insulation:
Proper amount in ceilings and walls
Double-pane windows or storm windows
Caulking of all seams and joints
Close fitting, sealing weather stripping
Heating and Cooling:
High energy efficiency rating (EER), and adequately sized air conditioner
Economical heating system of adequate capacity, or combination heat pump
Properly placed and adequate number of air vents
Electrical:
Number and placement of electrical outlets and circuits
220-volt outlet for dryer
100-150 amp electrical service (higher if all electric)
Plumbing:
Bathroom fixtures in working order
Adequately sized septic tank (if applicable)
Adequate drain for washer
Water line for refrigerator ice-maker
Adequately sized hot water heater
Miscellaneous:
Extent of warranty on house
Prewiring for telephone and TV cable
Appropriate landscaping
Concrete patio
Storm gutters and downspouts with adequate drainage

Exhibit 5
Checklist for Custom Building

1. Start planning
2. Attorney
3. Buy lot
4. Draw plans
5. Apply for permanent financing
6. Permanent loan application approved
7. Call for subcontractor bids
8. Apply for interim financing
9. Building approval
10. Architectural approval
11. Clear and grade
12. Interim financing approved
13. Get building permit
14. Award bids
15. Display permit
16. Water and sewer tap
17. Temporary electrical pole
18. Erect forms
19. Haul and knock down sand
20. Plumbing rough-in (sewer)
21. Level sand
22. Plumbing inspection (sewer and water)
23. Dig beams
24. Install copper line
25. Termite treatment
26. Shape polyethylene and steel
27. Slab inspection (steel)
28. Precut corners, window header and door
29. Pour slab and driveway
30. Cure slab
31. Strip forms



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32. Plate layout
33. Erect walls
34. Cut braces, joints, rafters
35. Bracing joints and rafters
36. Close-in and felt gables

37. Roof decking and felt
38. Hang exterior gyplap-sheet insulation
39. Install windows and exterior doors

40. Air conditioning and heat rough-in
41. Electrical rough-in
42. TV and phone prewiring and clean-up
43. Plumbing top-out and clean-up
44. Cornice

45. Clean-up

46. Roof vent and flashing
47. Exterior primer
48. Exterior paint
49. Shingles
50. Face brick

51. Plumbing, electrical and frame inspection
52. Wall insulation
53. Fireplace
54. Sheet rock
55. Garage door
56. Texture

57. Interior paint
58. Wood trim
59. Cabinets
60. Panel
61. Stain

62. Gutters
63. Screens
64. Pour sidewalk
65. Clean outside
66. Grade

67. Attic ventilation

Exhibit 6
Monthly Payment Schedule

	interest rate						
	10.5%	**11%**	**11.5%**	**12%**	**12.5%**	**13%**	**13.5%**
25 years							
$20,000	188.84	196.02	203.30	210.65	218.07	225.57	233.13
25,000	236.05	245.03	254.12	263.31	272.59	281.96	291.41
30,000	283.26	294.03	304.94	315.97	327.11	338.35	349.70
35,000	330.46	343.04	355.77	368.63	381.62	394.74	407.98
40,000	377.67	392.05	406.59	421.29	436.14	451.14	466.26
45,000	424.88	441.05	457.41	473.95	490.66	507.53	524.54
50,000	472.09	490.06	508.24	526.61	545.18	563.92	582.82
55,000	519.30	539.06	559.06	579.27	599.70	620.31	641.10
60,000	566.51	588.07	609.88	631.94	654.21	676.70	699.38
65,000	613.72	637.08	660.71	684.60	708.73	733.09	757.67
70,000	660.93	686.08	711.53	737.26	763.25	789.49	815.95
30 years							
$20,000	182.95	190.47	198.06	205.72	213.45	221.24	229.08
25,000	228.69	238.08	247.57	257.15	266.82	276.55	286.35
30,000	274.42	285.70	297.09	308.58	320.18	331.86	343.62
35,000	320.16	333.31	346.60	360.02	373.54	387.17	400.89
40,000	365.90	380.93	396.12	411.45	426.90	442.48	458.16
45,000	411.63	428.55	445.63	462.88	480.27	497.79	515.44
50,000	457.37	476.16	495.15	514.30	533.63	553.10	572.71
55,000	503.11	523.78	544.66	565.74	586.99	608.41	629.98
60,000	548.84	571.39	594.18	617.17	640.36	663.72	687.25
65,000	594.58	619.01	643.69	668.60	693.72	719.03	744.52
70,000	640.32	666.63	693.21	720.03	747.08	774.34	801.79

68. Wallpaper
69. Formica tops
70. Vinyl floors
71. Hardware and accessories

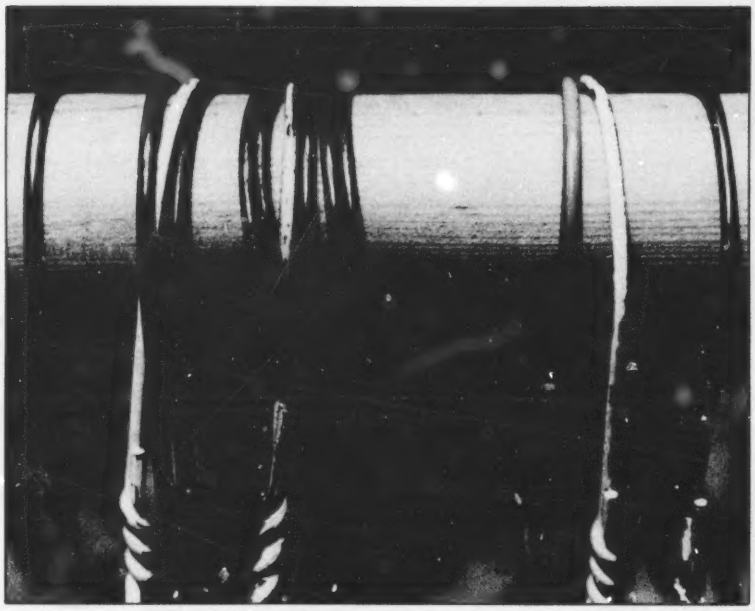
72. Clean-up
73. Electrical trim-out
74. Air conditioning, heat trim-out
75. Plumbing trim-out
76. Appliances

77. Electrical and plumbing inspection
78. Power hook-up
79. Air conditioning start-up

80. Carpet

81. Clean floor, windows and fixtures
82. Weather strip
83. Touch up paint
84. Seed and landscape

85. Owner inspection
86. Final close-out



Glossary

Amortization: The periodic reduction of the outstanding balance of a loan from application of a portion of each monthly payment toward the principal.

Appraisal: An estimate by a real estate professional of the value of the property.

Appreciation: An increase in the value of property. The potential for appreciation to offset the effects of inflation on personal wealth is a major advantage of homeownership.

Assumption of mortgage: The process by which a buyer becomes liable for a note secured by a mortgage previously held by the seller.

Balloon payment: The final lump sum payment of the outstanding balance on a partially amortized loan.

Capital appreciation: The increase of wealth caused by the rising value of property.

Closing: The process of concluding the real estate transaction by exchanging the property title for the sales price under terms of the purchase contract.

Closing costs: Sales expenses associated with the transfer of property and paid by the buyer and/or seller. See also *assumption fee, escrow money, insurance, loan commitment fee, loan origination fee, points, prorations, RESPA and commission.*

Commission: Fee charged by broker for services rendered in connection with the sale or exchange of property or for procuring a ready, willing and able buyer at the seller's terms.

Commitment to fund a loan: The lender's agreement to provide financing for a specific piece of property at a specific interest rate.

Community property: Property acquired by a husband and/or wife that belongs equally to them.

Condominium: A form of ownership in a multi-unit property in which the individual owns the living unit outright and a proportionate interest in the common elements. See *homeowner's association, townhouse.*

Construction loan: A short-term loan intended to finance improvements on a piece of land. See also *take out commitment.*

Contract for deed: A purchase and financing arrangement in which the seller retains title to the property until specified terms of

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the contract are satisfied. Also referred to as a *land sales contract* or *land contract*.

Conventional loan: A loan that is not guaranteed or insured by the government.

Credit report: An analysis of credit worthiness based on a borrower's past record in paying off debts. Generally required by the lender before making a loan commitment.

Custom-built home: A house constructed to the exact specifications of the buyer. See *speculative home*.

Debt service: The monthly payment of interest and principal on a loan. See also *amortization*.

Deed: A legal instrument which conveys title to property. See also *deed of trust, general warranty deed, title*.

Deed of trust: An instrument which conveys an interest in real property from the borrower to a trustee (third party) until all the terms of the mortgage are satisfied.

Depreciation: The loss in value of property due to a physical deterioration or functional and economic obsolescence.

Down payment: The amount of cash the buyer pays toward the purchase price at the time of purchase. See also *earnest money contract*.

Due-on-sale clause: Portion of the mortgage contract which specifies the disposition of the loan in case of a sale prior to loan maturity.

Earnest money contract: The instrument used to register an offer to purchase, the terms of the contract sale and closing instructions. It also is used to record the cash deposit paid by the prospective buyer. This deposit may be forfeited if the buyer later refuses to buy the property. See also *down payment*.

Easement: Right to use the property of another for a specified purpose, such as for driveway, drainage line or utility connection.

Encumbrance: A right, lien or interest in a property belonging to someone other than the owner. See also *mortgage, easement, lien, restrictive covenant*.

Escalation: An increase in the interest rate charged on a mortgage loan due to a certain event, such as the assumption of the

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debt by a new mortgagor.

Equity: The owner's financial interest in real property above the lien against the property.

Escrow money: Money held by a third party who will use it to carry out the terms of a contract. See also *closing costs, insurance, proration, title insurance.*

Fair housing law: Measure outlawing discrimination in housing on the basis of race, religion or creed.

FHA: Federal Housing Administration, a federal agency that insures real estate loans.

Financial statement: A report detailing the current wealth and debt situation of the potential borrower. A financial statement should accurately display all assets, all current debts and financial obligations.

Foreclosure: The procedure of the lender selling a property to pay off the remaining mortgage upon the buyer's default. See also *deed of trust, title.*

General warranty deed: A deed conveying title to the buyer in which the grantor agrees to protect the grantee against any claimant. Of all deeds provided, this one gives the most protection to the buyer. See also *deed, title.*

GI loan: See *VA.*

Graduated-payment mortgage: Loan arrangement in which the monthly principal and interest payment during the early years is lower than a standard mortgage but increases in steps for the first 5-10 years to amortize the loan.

Grantor: The party giving up or transferring title or interests in a property.

Hazard insurance: Insurance, usually required by the mortgagee, that indemnifies against hazards such as fire, windstorm or explosion. See also *closing costs, escrow money, insurance.*

Homeowners' association: A non-profit group of homeowners, usually legally recognized under a condominium declaration, which collects fees from members to maintain common facilities.

Insurance: Payment of a fee to shift the risk of financial loss to another party. See also *private mortgage insurance, hazard insurance.*

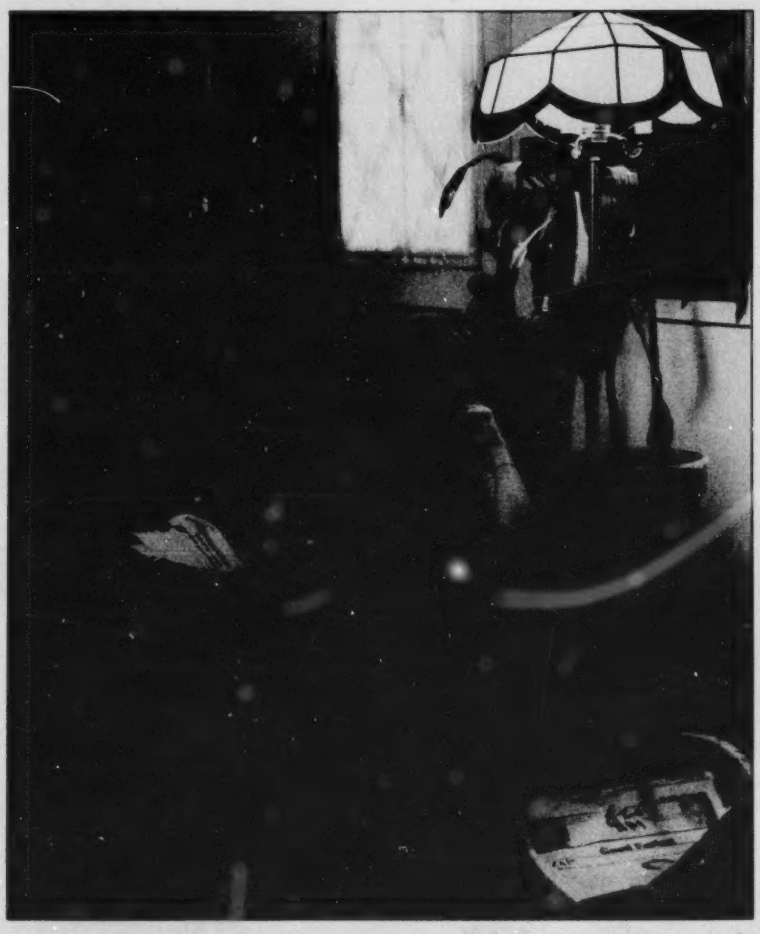
Interest rate: The cost of borrowed money expressed as an annual rate applied to the outstanding balance of the loan.

Land sales contract: See *contract for deed.*

Land Sales Full Disclosure Act: A federal law administered by the Department of Housing and Urban Development which requires disclosure of facts about certain types of unimproved lots advertised for sale by the developer.

Lien: A claim whereby the borrower's property becomes security for a mortgage encumbrance. See also *encumbrance.*

Life-cycle costs: Continual homeownership costs, including monthly payments for principal, interest, taxes and insurance (PITI), maintenance, repair, utilities and all other recurring obligations.



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Listing: An agreement between a broker and a seller that allows the broker the right to offer a piece of property for sale.

Loan commitment fee: The lender's charge, usually stated as a percentage of the requested loan amount, for guaranteeing to make funds available for a loan. See also *commitment to fund a loan.*

Loan discount: A service charge paid to the lender for making a loan, usually accomplished by charging points. See also *closing costs, points.*

Loan origination fee: A lender's charge for services in preparing to make a loan, usually stated as a percentage of the requested loan.

MLS: Multiple Listing Service; an organization in which all member brokers distribute their listing to all other members.

Mortgage: A legal instrument which pledges property as security for a debt.

Mortgage banker: One who originates, sells and services mortgage loans.

Mortgagee: One who takes a mortgage; a lender.

Mortgagor: One who gives a mortgage; a borrower.

100-year flood plain: A horizontal plain surrounding waterways which has a 1 percent chance in any given year of being flooded.

Option: The right, usually for a specified length of time, to purchase a property for a specified price.

Personal property: All property that is not classified as real property. See also *real property.*

PITI: Principal, interest, taxes and insurance; the components of a typical mortgage payment.

Planned unit development (PUD): A housing development generally designed so that housing units are clustered together to afford provision of common open space and/or incorporation of non-residential uses.

Points: A form of prepaid interest; one point equals 1 percent of the loan. See *loan discount.*

Possession: The act of occupying property and putting all others on notice the possessor has a claim on the property.

Prepaid interest: Interest paid before it is due.

Prepayment penalty: A charge levied by the lender when a mortgage loan is paid before the expiration of the term.

Prepayment privilege: The right of the borrower (mortgagor) to pay off the mortgage loan prior to expiration of the term.

Primary mortgage market: Market which handles transactions between individual borrowers and originators of mortgage loans.

Private mortgage insurance: Insurance which covers the amount of the loan above 80 percent of the property value. See also *closing costs.*

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Promissory note: An instrument that contains the amount of the debt, the terms of the payment and signature of the debtor.

Property tax liability: An accrued liability on real or personal property which is levied by a governmental unit and due at the end of the year. Homeowners usually pay this tax as a part of their monthly mortgage payments. See also *PITI, proration.*

Proration: Allocating obligations, such as taxes and insurance, paid or due to be paid equitably between buyer and seller at closing.

Qualifying: A screening process in which the lender examines the buyer's ability to repay any proposed loan amount.

Quitclaim deed: An instrument which transfers the interests of the grantor in a property but does not guarantee the extent or nature of those interests.

Real estate brokerage: The business of acting as an agent to bring buyers and sellers together for a fee.

Real property: Land and all of its attached, permanent improvements.

Refinancing: The act of retiring the existing debt on a property in favor of a new financial arrangement.

RESPA: Real Estate Settlement Procedures Act; a federal law assuring the parties are aware of all closing costs when the residence is financed by a federally regulated loan. See also *closing costs.*

Restrictive covenant: A statement in the deed restricting the use of a piece of property by future owners.

Rollover mortgage: Loan agreement which requires renegotiation of the mortgage contract, generally for the purpose of adjusting the interest rate, after a specified interval.

Savings and loan association: A lending institution established primarily to originate and service residential mortgage loans.

Second mortgage: A subordinated lien on a property established to secure supplementary financing. See *subordination.*

Secondary mortgage market: Market which deals in mortgages that have been originated in the primary mortgage market. See *primary mortgage market.*

Speculative home: A home constructed in anticipation that a buyer will be found by the completion date; the counterpart of a custom-built home.

Subject to: The acknowledgement of an existing mortgage lien without the personal obligation of the promissory note. When a property is purchased "subject to" an existing mortgage, the seller remains solely liable for any deficiency resulting from

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foreclosure of the loan. See also *assumption of mortgage.*

Subordination: The assignment of a lower priority to a lender's right to seek satisfaction of debt through foreclosure and sale of property.

Take out commitment: Obligation of a lender to provide long-term financing of a project following successful completion of construction.

Title: A legal instrument evidencing ownership of property.

Title insurance: A policy that shifts the risk of financial loss due to a defective deed from the owner to a third party. See also *insurance.*

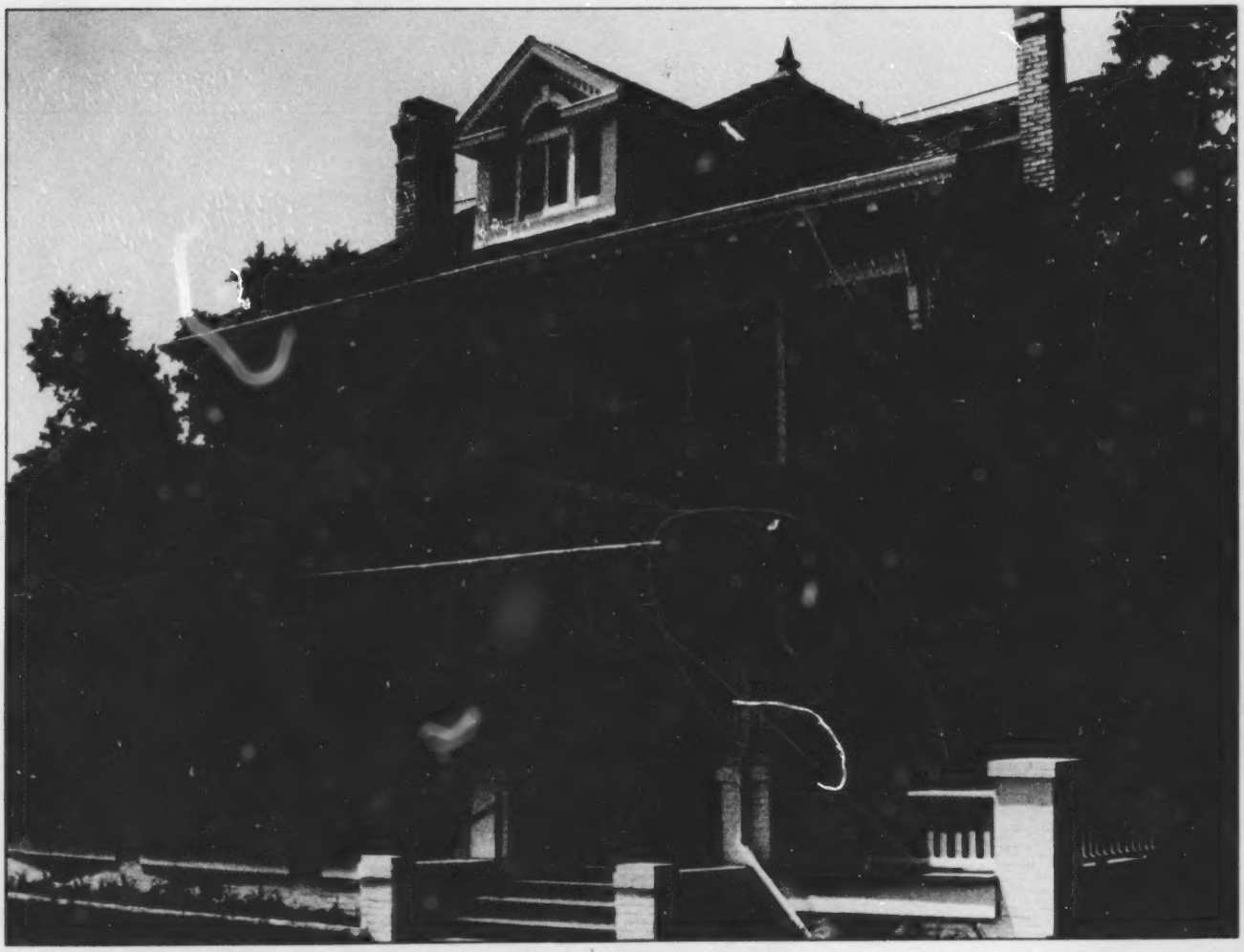
Townhouse: A single-family unit, usually consisting of two floors, often attached via party walls to other units and sometimes sold in the condominium form of ownership. See also *condominium.*

Trustee: A third party who holds property for another until an obligation is performed. See also *deed of trust.*

Usury: The charging of an effective interest rate on borrowed money in excess of the limits set by law.

VA: Veterans Administration; a federal agency that guarantees home loans for qualified veterans.

Variable-rate mortgage: Loan agreement in which the contract interest rate may be varied over time. Interest rate adjustments generally are related to some established indicator of current costs of funds to the lending institution.



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